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December 23, 2003

Mary L. Cottrell, Secretary
Department of Telecommunication and Energy
One South Station, 2nd Floor
Boston, MA 02110

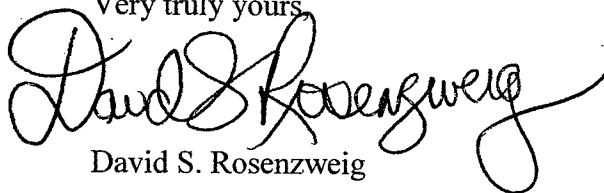
Re: NSTAR Gas Company, D.T.E. 03-103
Residential Conservation Services Program Budget

Dear Ms. Cottrell:

I have enclosed an original and nine (9) copies of: (1) an Offer of Settlement between the Division of Energy Resources ("DOER") and NSTAR Gas Company in the above-referenced proceeding; and (2) a Joint Motion for Approval of Settlement.

I have also included a Certificate of Service. Thank you for your attention to this matter.

Very truly yours,



David S. Rosenzweig

Enclosures

cc: Jody Stiefel, Hearing Officer
Steven Venezia, Esq., DOER
Larry Masland, DOER
Joseph Rogers, Esq., Assistant Attorney General
Suzanne Farrington, NSTAR Gas
Charles A. Olsson, NSTAR Gas

COMMONWEALTH OF MASSACHUSETTS

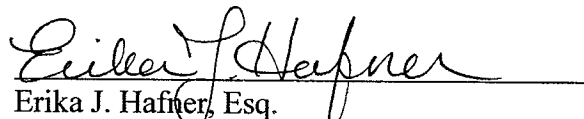
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company

D.T.E. 03-103

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Department of Telecommunications and Energy, and counsel for all parties, by hand or first class mail, in accordance with the requirements of 220 C.M.R. 1.05 (the Department's rules of Practice and Procedure).


Erika J. Hafner, Esq.
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Dated: December 23, 2003

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company

D.T.E. 03-103

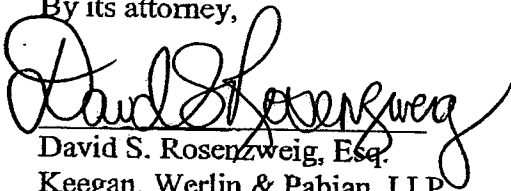
JOINT MOTION FOR APPROVAL OF SETTLEMENT

Pursuant to 220 C.M.R. § 1.10(8), NSTAR Gas Company and the Massachusetts Division of Energy Resources (hereinafter collectively referred to as the "Settling Parties") jointly request that the Department of Telecommunications and Energy approve, on or before December 31, 2003, the Offer of Settlement attached hereto.

Respectfully submitted for the Settling Parties by their attorneys this 22nd day of December 2003.

NSTAR GAS COMPANY

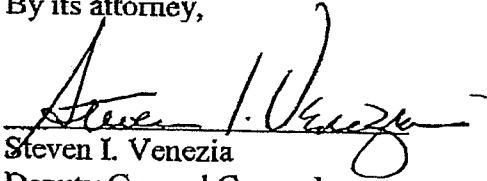
By its attorney,



David S. Rosenzweig, Esq.
Keegan, Werlin & Pabian, LLP
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DIVISION OF ENERGY RESOURCES

By its attorney,



Steven I. Venezia
Deputy General Counsel
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Boston, Massachusetts 02110

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company)
_____))
_____)

D.T.E. 03-103

OFFER OF SETTLEMENT

This Offer of Settlement ("Settlement") is entered into this 22nd day of December 2003, by and between NSTAR Gas Company ("NSTAR Gas" or the "Company") and the Commonwealth of Massachusetts Division of Energy Resources ("DOER"), for the purpose of resolving all issues in connection with the above-captioned proceeding. NSTAR Gas and DOER are collectively referred to herein as the "Settling Parties." Pursuant to 220 C.M.R. §§ 1.10(8), the Settling Parties stipulate to the following:

1. On October 31, 2003, pursuant to G.L. c. 164, App. §§ 2-1 through 2-10, and 220 C.M.R. §§ 7.00 et seq., NSTAR Gas filed with the Department of Telecommunications and Energy (the "Department") a petition for approval by the Department of the Company's proposed operating budget of \$452,311 and an applicable monthly surcharge of \$0.13 per monthly bill for the residential energy conservation service ("RCS") program for the calendar year January 1, 2004 through December 31, 2004 ("CY 2004").
2. Pursuant to G.L. c. 164, App. §§ 2-1 through 2-10, DOER must adopt a state plan and promulgate regulations necessary to implement that plan. DOER is responsible for (a) establishing residential energy and conservation goals; (b) establishing RCS program guidelines; (c) monitoring the implementation of the program requirements; and (d) overseeing the implementation of the state plan by approving a utility implementation plan ("UIP"). DOER has implemented the redesign of the RCS program, including the amendment of existing regulations at 225 C.M.R. §§ 4.00 et seq. NSTAR Gas participated in this process. In lieu of a UIP, the DOER has approved a statewide RCS Coalition Action Plan ("CAP"). The DOER has also established certain company-specific addenda to the generic CAP setting forth certain company-specific targets for implementation of the RCS program. The Company's RCS filing of October 31, 2003 incorporates and is consistent with the CAP and the Company-specific addendum thereto.
3. The Settling Parties have worked in good faith to achieve the goals set forth for calendar year 2003 ("CY 2003") in the DOER's Goals Letter

dated October 21, 2002 and the Settling Parties CY 2003 RCS Settlement in D.T.E. 02-61. Without limitation, the Company has been collecting data with respect to home energy assessments and the installation of major measures and submitted said data in the form of quarterly reports to the DOER throughout 2003. The Settling Parties have continued to work to streamline the process for providing rebates and incentives to eligible customers and to otherwise enhance one-stop shopping. Further, consistent with the DOER's CY 2003 Goals Letter, on June 24, 2003, the DOER provided a memorandum including, policy statements, addressing competition in the RCS program. The Company and other RCS program administrators ("PAs") have reviewed and discussed the DOER's June 24, 2003 memorandum in detail. The Company and the other PAs plan to file a memorandum addressing competition and the RCS program with DOER on or before December 24, 2003 (the "Competition Memorandum"). The Settling Parties acknowledge that the Company cannot warrant in advance that one specific memorandum agreed to all by all program administrators will be developed, but the PAs are working diligently in this regard. In 2003, the PAs also commenced an RCS process evaluation, currently contemplated to be completed in mid-February 2004 (the "Process Evaluation").

4. The Settling Parties have reviewed and discussed the DOER CY 2004 RCS Goals Letter dated October 15, 2003 (the "Goals Letter"). The Company commits to working in 2004 with the objective of achieving the outcomes set forth in the Goals Letter with the following clarifications and adjustments:

Goal #1: Increase Implementation: In 2004, the Company will work with the DOER, and other interested parties, in reviewing the cost-effectiveness, including a determination of the current benefit-cost ratio, of the statutorily mandated RCS program utilizing applicable Department screening standards. At this time, the Company cannot warrant that the statutorily mandated RCS program as currently operated will be cost-effective, but will work with the DOER to study this matter and to seek to enhance cost-effectiveness of the Program. The Settling Parties will work cooperatively to review the data collected and provided in 2003 (and 2002) with respect to home energy assessments and the percentage of such assessments that resulted in the installation of a major measure. The Settling Parties will review this installation information along with the Process Evaluation results expected in mid February 2004 and determine whether specific major measure installation targets are appropriate for the RCS Program and if so what such targets should be.

Goal #2: One Stop Shopping. The Company will seek to achieve the outcome as stated in the Goals Letter and plans to address this matter, including the potential for joint electric and gas "piggyback" efforts, in the

PA's Competition Memorandum. Further, the Company will review the results of the ongoing RCS Process Evaluation in connection with achieving this goal. The Settling Parties anticipate that the PAs will use the Process Evaluation to help formulate strategies addressing this goal after it is completed.

Goal #3: Create a Competitive Market for Energy Efficiency and Renewable Energy Services and Products. This goal will be actively discussed in 2004 RCS Network discussions between the DOER and the Company. It is anticipated that this discussion will be focused on the PA's Competition Memorandum and the Process Evaluation, with a goal of beginning to implement a consensus strategy by or about June 1, 2004, assuming the Process Evaluation is complete in mid-February 2004. The Settling Parties anticipate that both the Competition Memorandum and the Process Evaluation will be used in developing this strategy. The Settling Parties agree that it is possible that the strategy may call for a phase in of steps over time. The Settling Parties acknowledge that the Company cannot warrant in advance that a specific plan agreed to by all PAs will be developed. The Company will report on the success of its strategy in 2005.

Lastly, the Company plans to discuss with DOER the possible establishment of performance metrics and implementation of an RCS performance incentive for effect in 2005. If a consensus is reached between the Company and DOER on a performance incentive mechanism for 2005, such incentive proposal would be submitted as part of the Company's calendar year 2005 RCS filing to the Department of Telecommunications and Energy.

5. In support of this Offer of Settlement, the Settling Parties hereby incorporate into this Settlement the exhibits NSTAR Gas filed with the Department on October 31st in support of its proposed budget and surcharge, *i.e.*, the Company's Petition for Approval of Calendar Year 2004 RCS Program Budget and Surcharge; the Pre-Filed Direct Testimony of Charles A. Olsson; Exhibit 1A (CY04 RCS Program Budget); Exhibit 1B (CY04 Program Budget in the Supplemental Format requested by DOER); Exhibit 1C (Number of Residential Customers and Therms Sold); Exhibit 2A (Summary of Actual and Projected Expenses for CY04 on a per account basis); Exhibit 2B (Summary Actual and Projected Expenses for CY04 to coincide with the Supplemental Format requested by DOER); Exhibit 3A (Computation of the RCS Surcharge for CY04); Exhibit 3B (Computation of the Estimated Number of Monthly Bills); Exhibit 3C (Cumulative Reconciling Adjustments for 1981 - 2001); Exhibit 4A (A copy of the CAP); Exhibit 4B (NSTAR Gas-specific Addendum to the CAP); Exhibit 4C (DOER Memorandum Outlining Goals); Exhibit 4D

(NSTAR Gas Response to DOER Memorandum); and Exhibit 5 RCS Contractor Information.

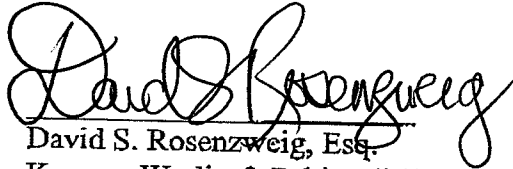
6. DOER has received and reviewed NSTAR Gas's CY 2004 budget filing and proposed surcharge and finds that it is appropriate to support the activities contemplated during CY 2004.
7. NSTAR Gas's RCS budget filing complies with the requirements established in G.L. c. 164, App. §§ 2-1 through 2-10; 220 C.M.R. §§ 7.00 et seq.; and the filing requirements set forth in Mass. Save, Inc., D.P.U. 85-189 (1985).
8. NSTAR Gas's actual expenses for its RCS program from January 1, 2003 through September 30, 2003, were \$266,581 and are reasonable and therefore should be recoverable from ratepayers. The Company's filing also demonstrates that its actual expenditures for the last three months of calendar year 2003 are similarly reasonable and recoverable. The Settling Parties agree that the Department will review the Company's actual expenditures for the final months of 2003 in the next annual RCS budget review.
9. NSTAR Gas' CY 2004 budget projections are good faith estimates based on the estimates approved for CY 2003 and actual in-field experience during CY 2003. These twelve-month estimated expenditures for CY 2004 are reasonable and recoverable from the ratepayers. Funding the budget at this level helps to assure the successful implementation of the redesigned RCS program.
10. The Company's proposed RCS surcharge of \$0.13, an increase from the surcharge of \$0.11 in 2003, is reasonable and should enable NSTAR Gas to assure the successful implementation of its RCS program and will be subject to reconciliation.
11. The Company calculated its RCS surcharge by dividing the total number of bills expected to be rendered during CY 2003 by the net amount to be collected to support RCS services and factoring in an adjustment with respect to past expenditures and collections. (Exhibit 3A, Surcharge Calculation Sheet). The RCS surcharge to be applied to the Company's bills during CY 2004 shall be \$0.13 per bill per month. This surcharge reasonably compares with the surcharge of \$0.11 per bill per month approved by the Department in NSTAR Gas Company, D.T.E. 02-61 (December 27, 2002) for CY 2003.
12. NSTAR Gas's proposed CY 2004 RCS program budget, budget reconciliations, and proposed CY 2004 surcharge, are reasonable.

13. The making of this Settlement shall not be deemed in any respect to constitute an admission by any party that any allegation or contention in these proceedings is true or valid.
14. The Settlement is expressly conditioned upon the Department's acceptance of all of its provisions, without change or condition on or before December 31, 2003, and if the Department does not accept it in its entirety, without change or condition, the Settlement shall be deemed to be null and void and without effect, and shall not constitute any part of the record in this proceeding nor be used for any other purpose.
15. The Department's acceptance of this Settlement does not constitute continuing approval of, or precedent regarding, any particular issue in this proceeding, but such acceptance does constitute a determination that, as the Settling Parties believe, the provisions set forth herein are just and reasonable.
16. The discussions that have produced this Settlement have been conducted on the understanding that all offers of settlement and discussion relating thereto are and shall be privileged, and shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding, any further proceeding or otherwise.

WHEREFORE, the Settling Parties agree to jointly petition the Department to approve this Offer of Settlement by submitting a Joint Motion for Approval of Offer of Settlement in accordance with 220 C.M.R. § 1.10(8), and by their attorneys do hereunto affix their names.

NSTAR GAS COMPANY

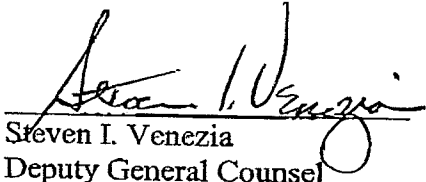
By its attorney,



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